

Rural Broadband

Overcoming Obstacles and Achieving the Vision

**USF
Reform**

**Intercarrier
Comp
Reform**

**Delivering Broadband to
High-Cost Areas of Rural
America**

**Targeted
Broadband
Funding**

McLean & Brown

Overview

- **The Vision**
- **The Rationale**
- **The History**
- **The Problem**
- **The Solution**
- **Targeted Broadband Support**

The Vision

- **President Obama:**

“I believe that America should lead the world in broadband penetration and Internet access. As a country, we have ensure that every American has access to telephone service and electricity, regardless of economic status, and I will do likewise for broadband Internet access.”

- **Broadband should be ubiquitously available, affordable for all and widely adopted**

The Rationale

- **President Obama:**

“Full broadband penetration can enrich democratic discourse, enhance competition, provide economic growth, and bring significant consumer benefits.”
- **Broadband has become a basic need, as fundamental as other utilities**

The History

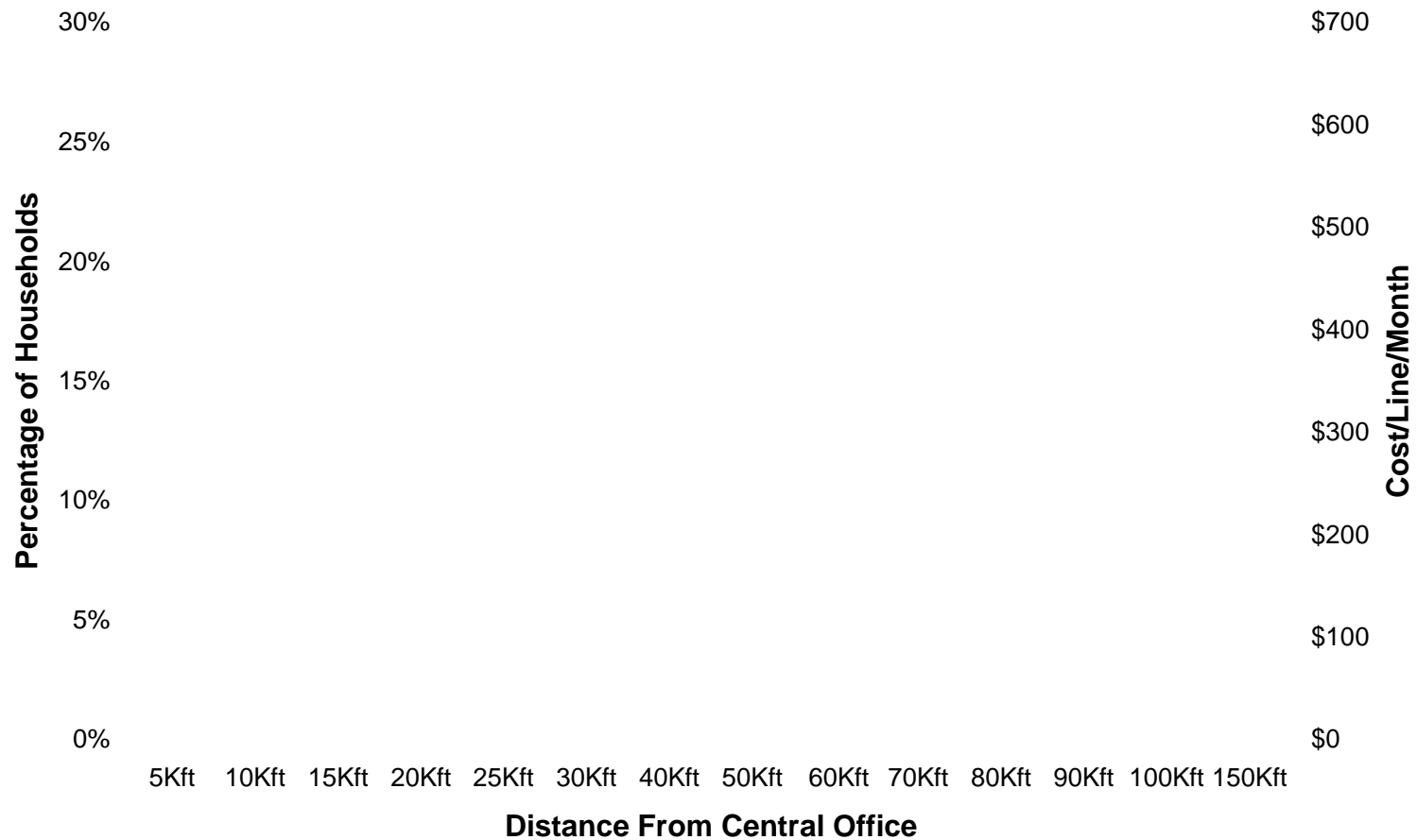
- **RLECs came into being to serve rural areas that Bell found unprofitable to serve**
- **RLECs have been able to provide comparable services to urban areas at comparable rates due to an evolving mixture of:**
 - Implicit support from Intercarrier Compensation (ICC), and
 - Explicit support from the Universal Service Fund
- **RLECs have built hybrid fiber/copper networks that are enabling the delivery of high-speed Broadband services to millions of rural consumers**

The Problem

- **Sparsely populated rural areas are costly to serve**
 - Costs greatly exceed revenues that will be generated
 - So long as the Nation maintains a policy goal of delivering Broadband to all of its citizens, explicit government support will be required
- **RLECs depend on USF and ICC to recover over half of their network costs (some > 70%)**
- **The current USF and ICC mechanisms will not be sustainable in a Broadband world**
- **Without fundamental USF and ICC reform**
 - RLEC customers will face a disaster of train-wreck proportions
 - The Nation's Broadband vision will be difficult, if not impossible to achieve

Rural Areas are Costly to Serve

All U. S. Households



Rural Areas are Costly to Serve

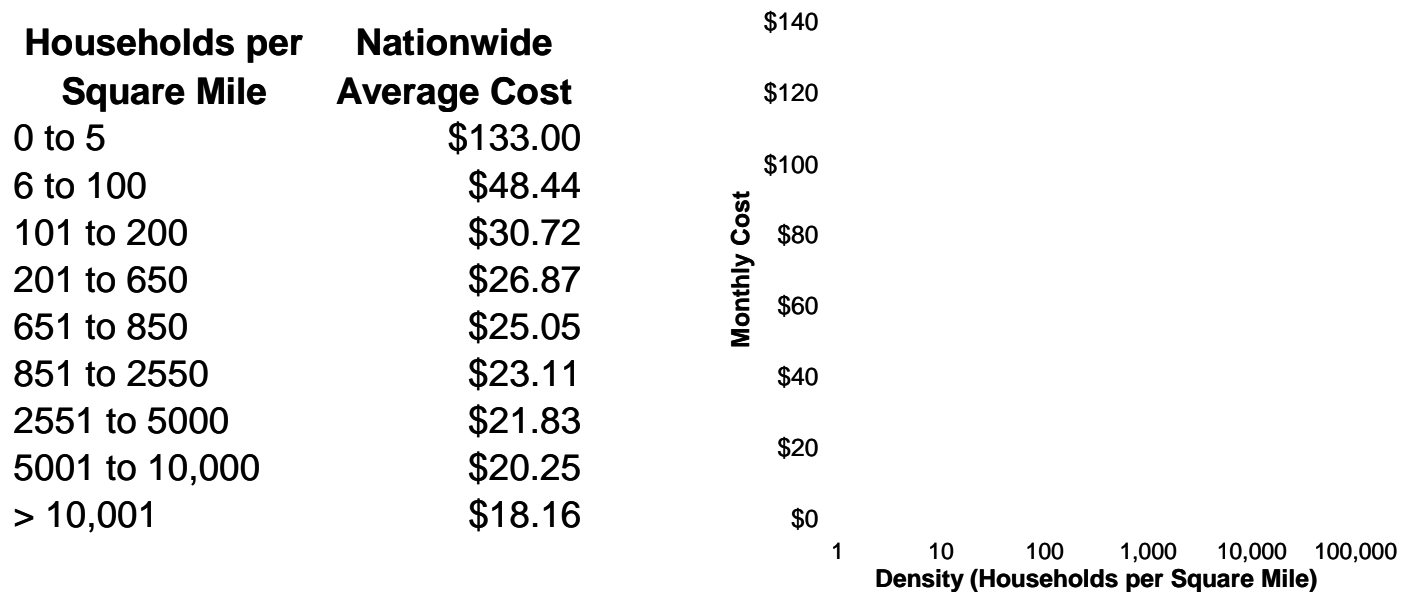


Chart VII

RLECs Depend Heavily on USF and Access Charges

Source of Revenues		
Source	Rural	RBOC
End User	27%	61%
Access Charges	26%	10%
USF	30%	0%
Other	17%	29%

Both Programs Face Serious Challenges

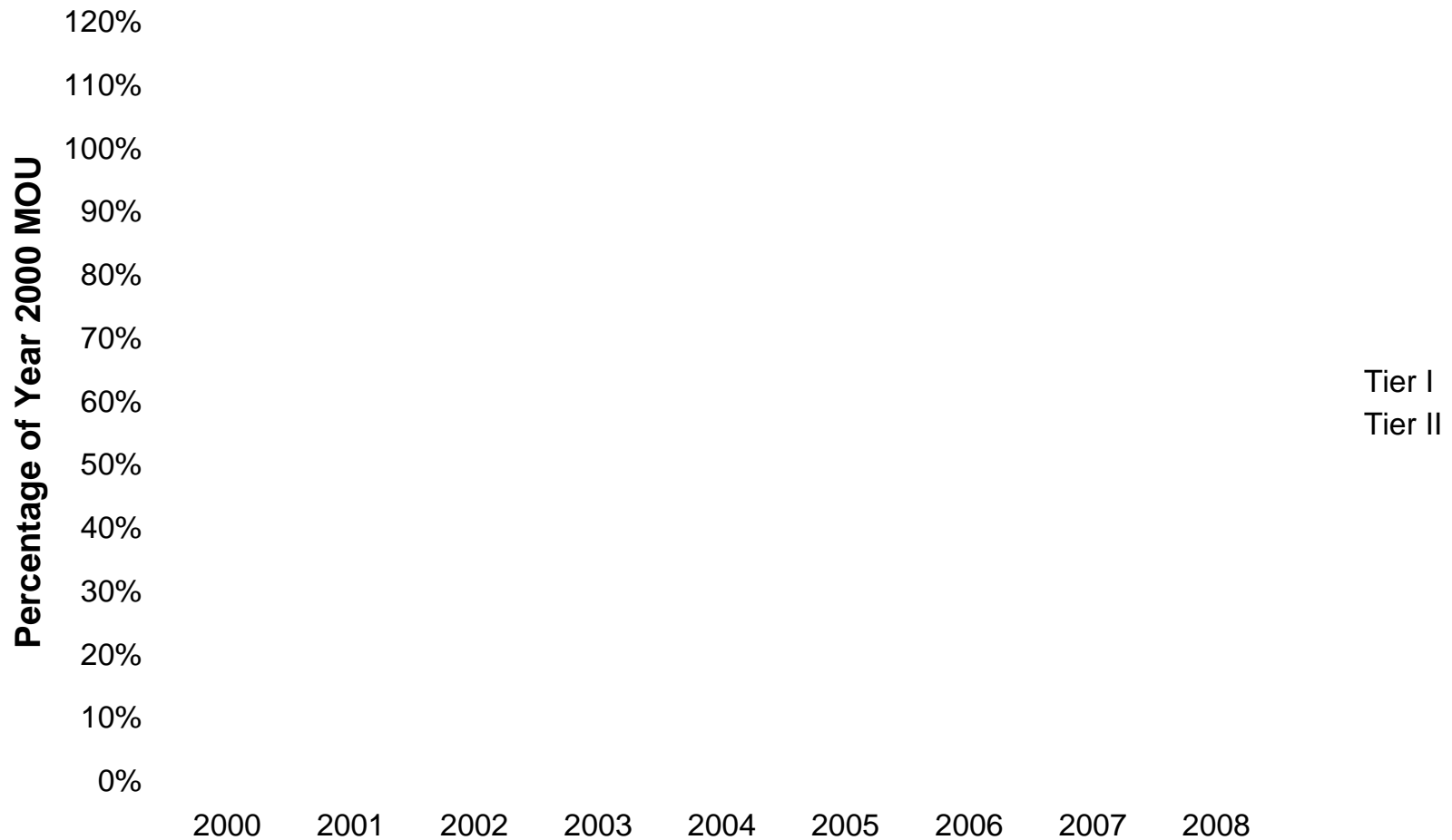
Current USF and ICC Mechanisms Are Not Sustainable

- **Universal Service Fund**
 - The current USF collection mechanism based on Interstate and International long distance revenues
 - Distance has no meaning on the Internet
 - The contribution factor is 12.7% and growing
 - The need for explicit funding will grow to meet the needs of unserved and underserved consumers for Broadband
- **Intercarrier Compensation**
 - Most ICC is billed “per minute-of-use” basis
 - MOUs are declining rapidly
 - MOUs do not exist in a Broadband world
 - ICC, as we have known it, will soon go away

USF Collection Mechanism



Access MOU Trends



USF and ICC Reform is **Crucial!**

- **RLECs in the most rural parts of the nation rely on USF & ICC to cover 70% or more of operating costs**
 - A significant disruption of this cash flow would threaten continued viability of many RLEC's network operations
 - Failures of this nature would create a catastrophe of train-wreck proportions for rural consumers
- **Current ICC and USF mechanisms must be fundamentally reformed for a Broadband world**
- **Perpetuation of the outdated Telecommunications vs. Information Service dichotomy will make the National's Broadband Vision difficult to achieve**

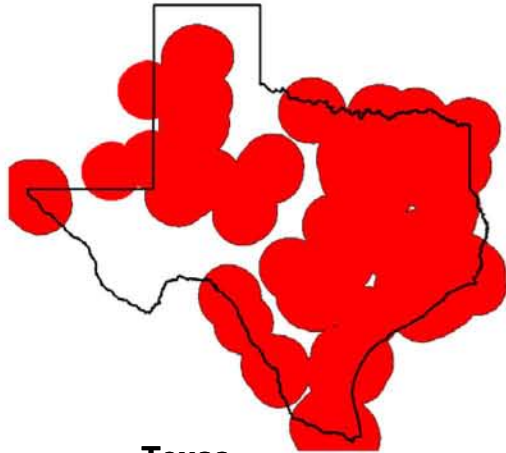
The Solution

- The USF Collection Mechanism must be changed to assess telephone numbers and broadband connections
- Broadband must be supported by better-targeted explicit universal service mechanisms
- Access charges must be phased out as they are not sustainable in a Broadband world
- The support for rural connectivity that was implicit in ICC must become the responsibility of *all* who rely on America's network of networks (aka RM)
- Wireless networks lack the speed and throughput capacity to efficiently replace rural wire/fiber-line networks a rural Broadband delivery vehicle

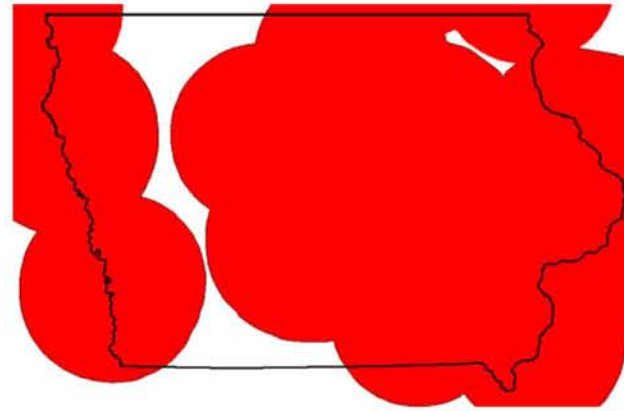
Targeted Broadband Support

- Funding must go where it is most needed to support the most efficient Broadband solutions
- Fund recipients must be held accountable for results
- Funding should be targeted to one wire/fiber-line and no more than one wireless Broadband provider in a rural service area
- Historical USF and ICC regimes must transition into a coordinated rural Broadband support framework
- The BIP and BTOP programs must better target “remote” consumers and ensure Broadband delivery to unserved and underserved rural areas

BIP Definition of “Remote”



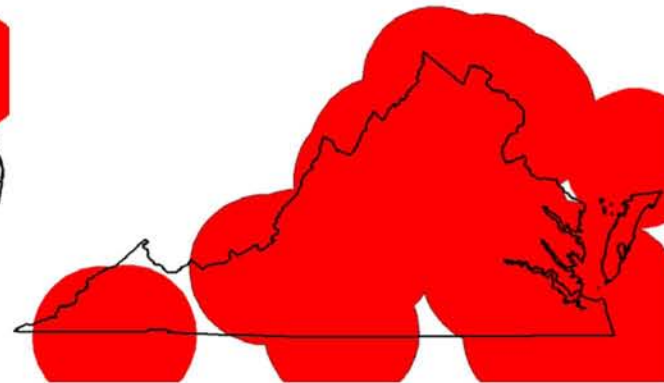
Texas



Iowa



North Carolina



Virginia

McLean & Brown

**For a copy of the complete
white paper go to:**

www.rural-alliance.org